COMMENTS OF

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PREPARED FOR

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I express appreciation to the FTC and Antitrust Division for this invitation to participate as part of the panel in these hearings and to provide comments on the important topic of competition and intellectual property law and policy in the knowledge-based economy.

I begin my comments by first noting that I have been invited to the hearing in order to share my experience about the kinds of reasons that clients are interested in developing patent portfolios, particularly in regard to software and so-called business method patents.

In my experience, on one end of the spectrum, the interest of small start-ups in obtaining patents for software and e-commerce technology in general is most often driven by two considerations: 1) a desire to protect innovation, thereby hopefully placing them on a more level playing field with larger competitors who may dominate a particular market (clearly a "pro-competitive" use of such patents), and 2) as a means of attracting investment capital by giving investors assurance that their venture capital spent in developing the technology would be protected to the extent possible from being pirated and copied by others.

On the other end of the spectrum, again based on my experience, large companies, even those with a dominant position in a market, do not seek to develop patent portfolios in order to create "patent thickets" or barriers to competition as such. Rather, their concerns are more typically borne out of 1) attempting to insure "freedom to innovate" or "design freedom" as it is sometimes called, by providing a portfolio that can be used to negotiate cross licenses, for example, when threatened with banishment from an

important market due to patents held by a large competitor (again a "pro-competitive use of patents"), and 2) the hope of protecting investment and new technology which results from investment of R & D dollars (again an important thing for management to convey to shareholders in terms of promoting increased share value, just as in the case of small start-ups).

In a paper written by Prof. Greenstein of Northwestern, given during some of the earlier FTC hearings, Prof. Greenstein argued, in effect, that antitrust policy is really concerned only with large firms and that patents can provide pro-competitive leverage when used by small firms seeking entrance to a market dominated by larger "incumbents." He also noted that whether patents truly stifle competition as opposed to advancing progress in the useful arts, as they are supposed to, is likely a very complex question that depends on particular industries and is not currently susceptible of any definitive answer given the lack of any real empirical studies on the question.

I think Prof. Greenstein has correctly framed the issues in his paper, and given my own experience as noted above, where patents are typically used at both ends of the spectrum in a very legitimate, pro-competitive fashion (e.g., by small "entrants" to a market to level the playing field, and by large "incumbents" to protect "design freedom" vis-à-vis their large competitors in a market, and by both to protect investments, increase share value and attract (in the case of the start-up) additional venture capital), and given the lack of any real empirical evidence to the contrary, the real question to be addressed in these hearings is whether the FTC/DOJ *should* depart from it traditional role.

In other words, the antitrust/IP interface has historically only been concerned with identifying, setting and enforcing antitrust policy where patents are *abused* as such (e.g.,

citing the classical scenarios such as unlawful tying arrangements which attempt to expand the scope of a patent to unpatented products, or to unlawfully extend the duration of a patent, as noted by Mr. Taylor in his presentation). Assuming for the sake argument that there is a problem with patent quality the question is whether that is a matter for FTC/DOJ involvement, or whether that is best left as a matter of *patent* policy, as it historically has been. It is also worth noting that this is not a new thing. Over a hundred years ago we faced similar challenges, as evidenced by the Telephone and Telegraph cases, both of which also presented questions of whether the claims granted in those patents were commensurate in scope with the contributions which the inventors had made to advancing the state of the art.

John Love of the USPTO has observed in the course of these hearings that the medical device arts, where he had formerly worked as a director in the PTO, had also undergone similar kinds of issues during the early days when that technology rapidly grew in terms of patent filings, and that the medical device art units had ultimately worked through those issues in an acceptable way, and that the business method arts would also, if given time.

In closing, even if the "quality" of patents issued for business methods is a legitimate concern (something which I frankly question in view of the fact that of all patents issued in 2000 and 2001, the number of business method patents issued 1) represents only about ½ of 1% and ¼ of 1% respectively for those years, and 2) that as applied to those very small percentages, the "error rate" in the class 705 patents (e.g., claims found to have been not warranted as allowable due to prior art or other reasons), as determined by the PTO in reference to all other patents allowed, is only about 3% - 5%, less than that for the

PTO overall), that perhaps the starting point for "reformation" ought to be to insure that the PTO is given a chance to carry out its statutory duty for examining applications, with the benefit of its *full* budget. I note that in the last 5 years, 500 billion of the user fees paid to the PTO had been diverted by congress for other uses rather than letting the PTO use those fees to improve patent examination quality, and that during that same time its workload had increased by 71% in terms of increased filings, while its increase in hiring and resource development for handling that increase had been less than half that, barely enough to just stay even from year to year in terms of preventing *shrinkage* of its workforce.